Growth in Rural Transfer Payments for Some Public Assistance Programs Offsets Sharp Declines in Others

In the face of a strong economy, growth of nonmetro and metro per capita transfer payments to individuals slowed steadily during the 1990's, although transfers continued to grow slightly faster in nonmetro areas. Per capita transfer payments in most major program categories either slowed or declined, but not all individual programs responded in the same way. In the public assistance category, per capita transfers of nonmetro and metro per capita transfers for Aid to Families with Dependent Children (AFDC) and food stamps declined markedly, with AFDC per capita benefits declining more sharply in nonmetro than in metro areas. At the same time, the growth rate for per capita transfers for "other income maintenance programs" quickened. Nonmetro counties with large minority populations had higher per capita payments for all public aid programs, indicating a greater reliance on public assistance in these counties.

Rural Americans received $208 billion of over $1 trillion of national cash and in-kind benefits transferred to individuals by Federal, State, and local governments in 1996. On a per capita basis, this amounted to $3,894—up from $3,318 in 1989 and $3,709 in 1994 in real dollars. In comparison, real per capita transfers to urban Americans grew from $2,999 in 1989 to $3,677 in 1994 to $3,841 in 1996. At the beginning of the decade, nonmetro per capita transfers exceeded metro transfers by over $300. By 1996, metro per capita transfers lagged nonmetro by only $53. Although per capita transfer payments were similar, government transfers accounted for a larger share of nonmetro than metro personal income—21 percent versus 15 percent (app. table 11).

Major public spending on cash transfer payments traces back to the Social Security Act of 1935 that spawned programs like Social Security and forerunners to Unemployment Insurance, Supplemental Security Income (SSI), and Aid to Families with Dependent Children (AFDC). The establishment of other cash and in-kind benefit programs—food stamps, Medicare, Medicaid—followed during the 1960's and 1970's.

In August 1996, Congress enacted major Federal legislation to reform the public welfare system. Unlike earlier efforts to reform welfare, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) altered the scope and structure of most major public aid programs. The act's provisions also replaced AFDC, the 61-year-old Federal welfare program, with Temporary Assistance for Needy Families (TANF), a system of State-run low-income assistance programs funded by Federal block grants. While it is too soon to fully assess its impacts, this article's results suggest that the anticipation of impending changes in the welfare system along with other policy changes, bolstered by a favorable economy, may already be reshaping public spending for public aid programs.

Six Out of 10 Public Assistance Dollars Are for Medicaid Benefits

The proportional composition of nonmetro and metro transfer payments is remarkably similar. Social insurance programs (Social Security, Medicare, and retirement and disability programs) represented the overwhelming share of transfer spending in 1996. Programs to aid low-income families and children (income maintenance programs and Medicaid) accounted for about one-quarter of rural transfers. Of the $52 billion that rural areas received for public assistance programs, over three-fifths went for Medicaid health benefits. Food stamps, SSI for elderly and disabled citizens, and miscellaneous "other income maintenance" programs (including the Earned Income Tax Credit (EITC), general assistance, emergency assistance, and other small programs) contributed about one-third of rural public assistance dollars. The remaining 5 percent went for welfare benefits under AFDC (fig. 1).

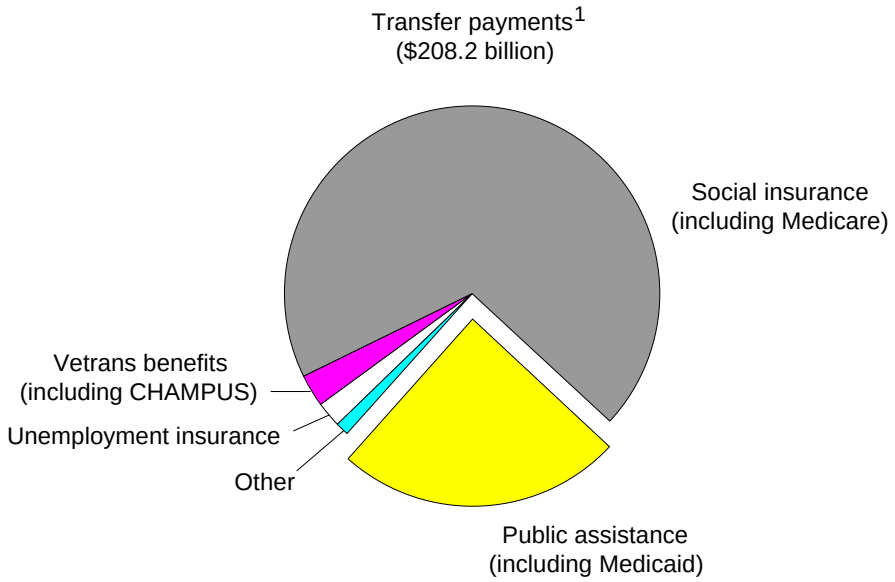
Rural Transfers Continue to Grow Slightly Faster than Urban Transfers

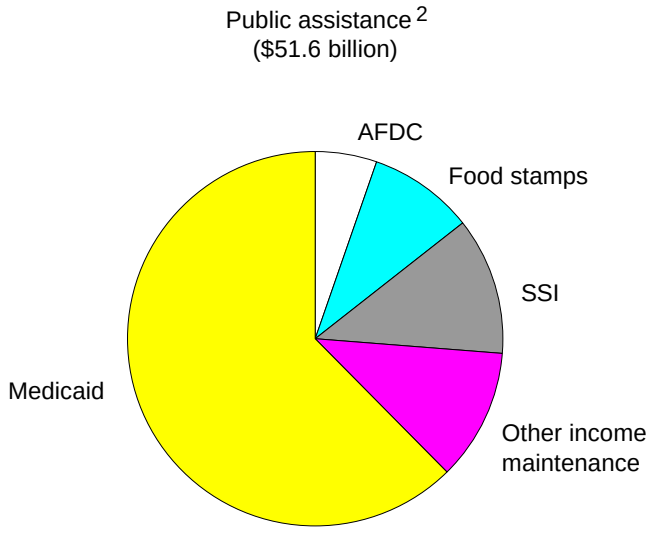
The rates of annual change in transfer payments generally wax and wane with changes in the national economy. Federal, State and local transfer dollars increase to buffer the effects of economic recessions on local economies and slow when the economy is strong. During the late 1980's, transfer payments were growing at a rate of under 2 percent per year. In response to the 1990-91 recession, annual growth rates increased sharply, reaching nearly 7 percent in 1990-91 and 1991-92 in nonmetro and metro areas. As the economic recovery gained strength, the metro and nonmetro transfers growth rate slowed dramatically reaching a low of about 1 percent or less in 1993-94. In 1995-96, the nonmetro annual growth rate stood at 2.2 percent—slightly higher than the metro rate

Figure 1

Sources of nonmetro transfer spending, 1996

Social insurance and public assistance programs account for 95 percent of nonmetro transfer payments





[1]Transfer payments to individuals—96 percent of total transfers.

[2]Includes Medicaid and the income maintenance programs—Aid to Families with Dependent Children (now Temporary Assistance for Needy Families), food stamps, Supplemental Security Income, and "other income maintenance." The latter consists of general assistance, emergency assistance, refugee assistance, foster home care payments, Earned Income Tax Credits, and energy assistance.

Source: Calculated by ERS using data from the Bureau of Economic Analysis.

of 1.8 percent. Since the early 1980's, nonmetro transfers growth has slightly surpassed metro growth in all years but one (fig. 2).

During the most recent 5-year period, per capita transfers' annualized growth rates for the three major program categories, which represented the bulk (over 95 percent) of nonmetro and metro 1996 transfer dollars, either slowed or declined in response to economic recovery (app. table 11). Between 1991-96, per capita retirement and disability benefits grew slowly at rates well under 2 percent per year. The growth of per capita medical benefits has slowed from rates exceeding 10 percent during 1989-91 to about 7 percent or more per year (both nonmetro and metro) during 1991-94 to around 5 percent during 1994-96. Of the program categories, medical transfer payments continued to grow most rapidly. Growth rates in the income maintenance category, which had begun to slow during 1991-94, shrank to 0.93 percent in nonmetro and -0.43 percent in metro areas by 1994-96, but not all individual programs responded alike (app. table 11).

AFDC Benefits Decline More Rapidly in Rural than Urban Areas

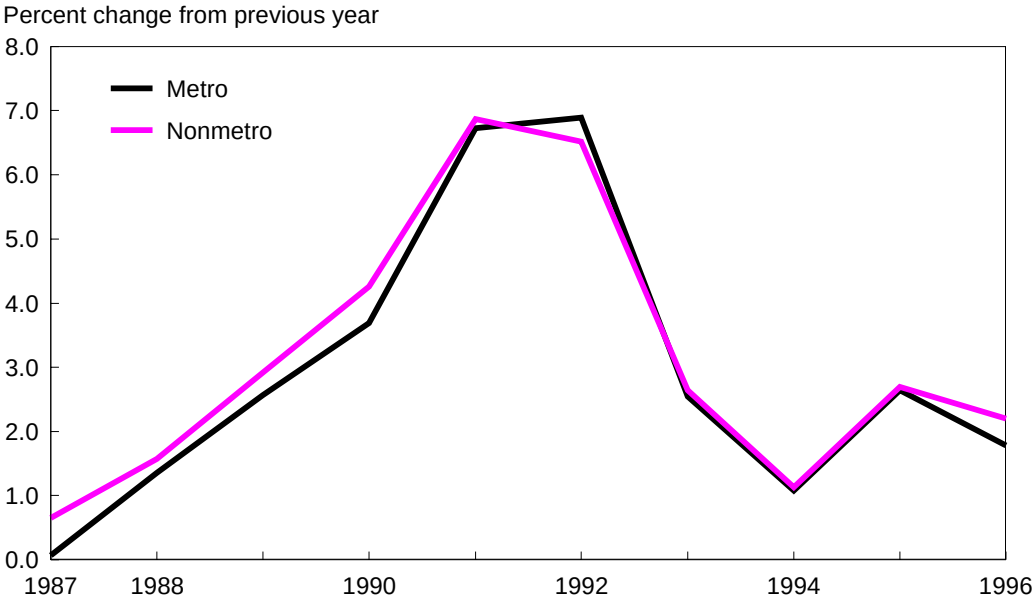
Growth rates in per capita transfers for the major income maintenance programs and Medicaid either slowed or declined, but per capita transfers for programs subsumed under "other income maintenance programs" grew substantially during 1994-96. These trends began to develop during the post-1991 economic recovery.

The growth rates in nonmetro and metro Medicaid benefits, which grew rapidly during the early 1990's, slowed to about 3 percent per year, and SSI growth slowed markedly during 1994-96. Per capita benefits for two of the three major income maintenance programs—AFDC and food stamps—declined rapidly. Nonmetro and metro food stamp payments declined at about the same rate. AFDC per capita benefits, however, declined more sharply in nonmetro than in metro areas (an average annual change of -11.0 percent versus -8.3 percent) (fig. 3).

Figure 2

Annual change in real per capita transfer payments, by residence, 1987-96

Growth in government transfer payments to individuals leveled off following the recessionary periods early in the 1990's

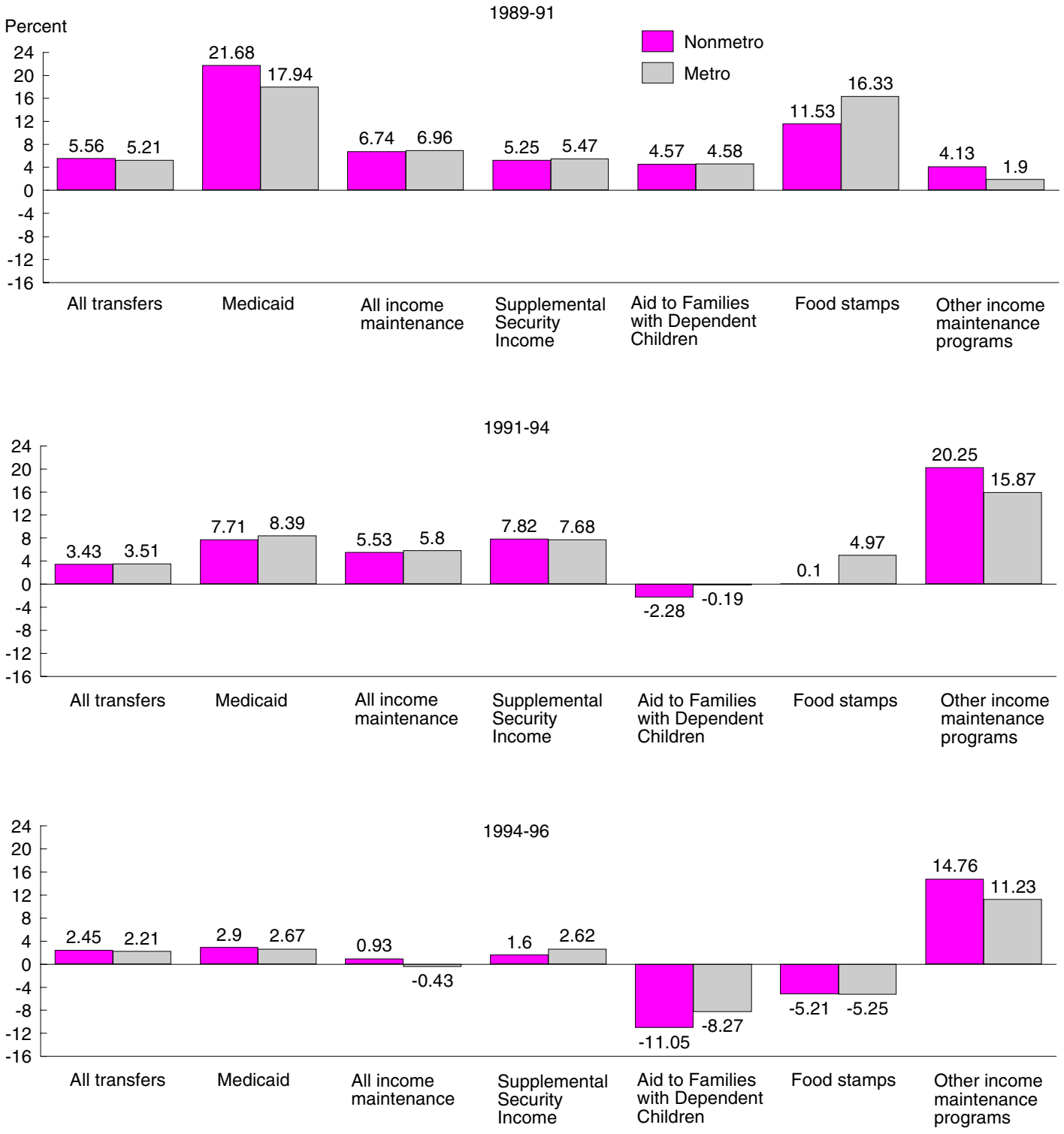


Source: Calculated by ERS using data from the Bureau of Economic Analysis.

Figure 3

Average annual change in transfer payments for selected programs, by residence, 1989-91, 1991-94, and 1994-96

Nonmetro benefits declined more rapidly than urban benefits during 1994-96



Source: Calculated by ERS using data from the Bureau of Economic Analysis.

On the other hand, transfers for "other income maintenance programs"—EITC, general assistance, emergency assistance and others—grew at rates much faster (14.7 percent in rural and 11.2 percent in urban areas) than rates for all transfers or any of the other programs (fig. 3).

The reasons for the current trends in public assistance programs are not fully known. A recent ERS analysis demonstrates that declining AFDC caseloads mainly account for declining AFDC benefit payments, but not for the swifter decline in nonmetro benefits. Rather, the nonmetro difference may be traced to disproportionate nonmetro declines in average benefit payments per child. Some of the factors that may underlie the pattern of change include more favorable economic conditions, which have opened up new jobs in local labor markets, thus diminishing the need for public assistance; significant policy changes in State and Federal public aid programs over the past few years; and resultant changes in client populations and behavior.

As noted above, the enactment of PRWORA and its provisions affected the scope and operation of the major public assistance programs—AFDC, SSI, food stamps, and Medicaid. Furthermore, PRWORA broadened the States' role and responsibility for designing and operating their State programs tailored to meet local conditions and needs. Many States, however, had already begun to revamp their welfare programs under Federal waivers granted even before the enactment of PRWORA. Between 1993 and August 1996, the Department of Health and Human Services (HHS) granted waivers to 43 States and the District of Columbia to develop their own State welfare programs. Furthermore, PRWORA's provisions allow States the option of choosing to operate under their State waivers as long as they are in effect, even if waiver provisions are inconsistent with PRWORA provisions.

Thus, the recent declines in AFDC and food stamp benefits reflect, to some extent, the new policies and practices instigated by State waiver programs along with possible client responses to pending changes from the implementation of PRWORA provisions that would tighten eligibility requirements, set time-limits for client groups, and convert Federal welfare funds to fixed State block grants. The faster declines in AFDC benefits in nonmetro than metro areas are consistent with published statistics showing that States with disproportionately large rural and/or minority populations have traditionally paid low welfare benefits, which may affect the amount of TANF Federal block grants available to predominantly rural States to run their own State programs (see *Rural Conditions and Trends*, Vol. 8, No. 1, 1997, pp. 38-47).

Rising benefits in "other income maintenance programs" may signal that, in the face of a changing public welfare arena, clients are relying more on State programs like general assistance or emergency assistance for short-term help. Another reason explaining the growth in "other income maintenance programs" is policy changes in the Earned Income Tax Program (EITC), causing public costs to double between 1992-96. We should be able to make more definitive statements about underlying causes after the 1997 data become available.

Dependence on Transfer Payments Differs Among Rural County Types

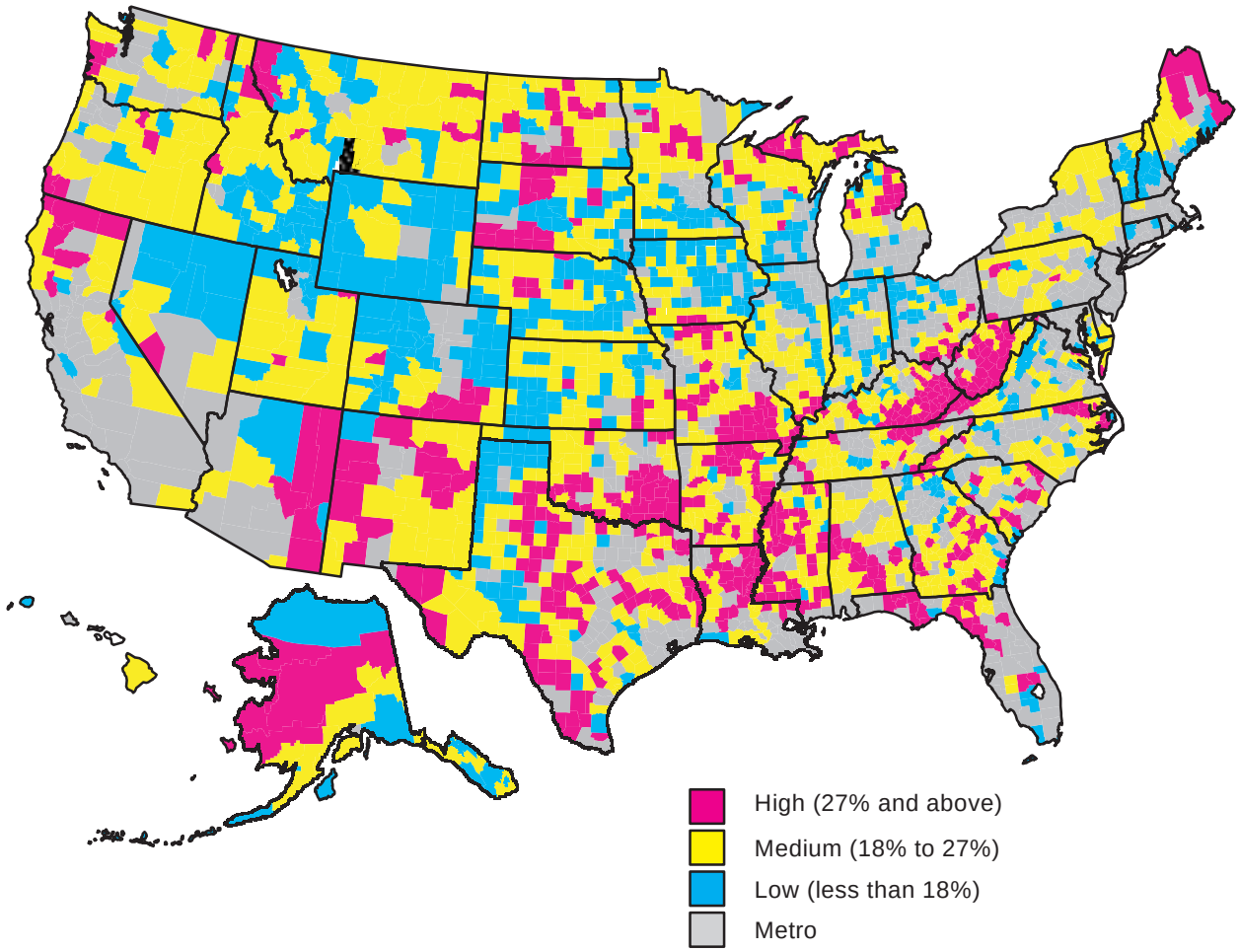
The level and program mix of transfer payments varied geographically and among different types of nonmetro counties in 1996. With $4,308 per capita, residents in retirement-destination counties relied more on transfer benefits than all nonmetro residents, but over half of the benefits came from transfers connected with social insurance programs and Medicare. In comparison, the 535 counties with persistently high poverty rates received higher shares of transfer benefits from income maintenance programs and Medicaid but lower shares from social insurance programs (app. table 12).

The levels of rural per capita transfers also varied regionally. Nonmetro residents living in the Northeast and South received higher per capita benefits than residents in the Midwest and West. Moreover, counties highly dependent on income from transfers—the top 25 percent of nonmetro counties that derived 27 percent or more annual average county per-

sonal income from transfers during 1994-96—were concentrated in certain areas of the country (fig. 4). (In one rural county, transfer payments represented 55 percent of its personal income.) High transfer counties are concentrated in the Appalachian areas of West Virginia and Kentucky, the Black Belt counties of the Deep South including the Mississippi River Delta, parts of Texas with high Hispanic populations, Western counties with large Native American populations, retirement areas in the Ozark region, upper New England, and parts of northern Florida and northern California. High-transfer counties received $4,696 per capita transfer benefits from all programs in 1996. On a county basis, their per capita transfers ranged from a high of $8,642 to a low of $2,158 (app. table 12).

In addition, high-transfer counties were disproportionately found among persistent poverty counties and counties with large concentrations of minority population. Nearly 70 percent or more of counties where a single minority group—Black, Native American, or Hispanic—constituted a majority of the population were also high-transfer counties (app. table 12).

Figure 4
Nonmetro county dependence on government transfer payments, 1994-96
High-transfer counties include many minority counties



Source: Calculated by ERS using data from the Bureau of Economic Analysis.

Hispanic Counties Receive Lower per Capita Transfer Payments

Based on unusually high poverty rates among minorities (reported elsewhere in this issue), we expected all of the minority county types to have high per capita transfer payments. The picture is more mixed, however. Compared with all nonmetro counties, total per capita transfer benefits in both substantial and predominant Black counties and predominant Native American counties were substantially higher than the per capita benefits for all nonmetro counties, but the per capita amounts in all other minority counties were lower (app. table 12).

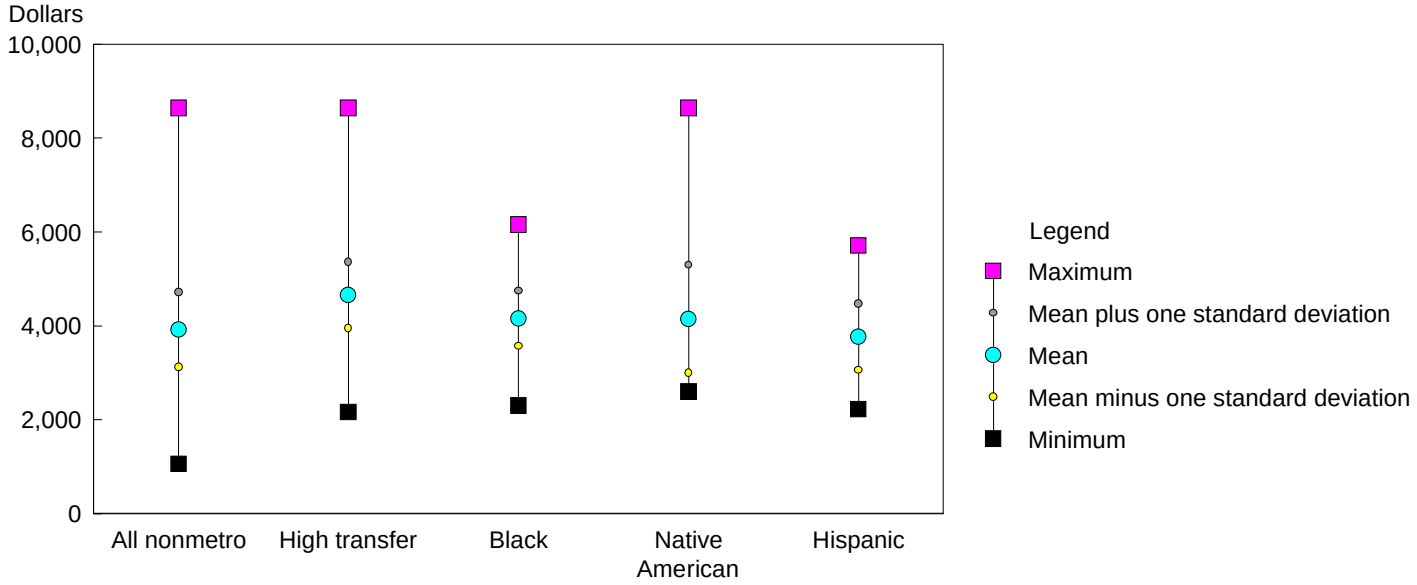
The patterns shift somewhat when we examine the average (mean) county per capita transfers and county variations within each of the county minority groups instead of the aggregate per capita transfers for the different minority groups (fig. 5). Based on the county averages, per capita transfer payments for Black counties ($4,153) and Native American counties ($4,141) exceeded the nonmetro county average, while the county average for the Hispanic counties ($3,763) was lower than the all nonmetro average. The narrow range of per capita transfers for Black counties suggests consistency in the levels of transfers' income among these counties. Moreover, the amount of the average county per capita transfers varied according to the designation as a substantial or predominant minority group (not shown). The average county benefits for predominantly and substantially Black counties and predominantly Native American counties were above and the county benefits for substantially Native American and substantially and predominantly Hispanic counties were below the all nonmetro county average.

The lower minority eligibility and participation rates for some programs may partly explain the lower county average per capita transfers in the Hispanic counties. As noted elsewhere in this issue, the Hispanic population has a lower age structure than other minority populations, which would influence minority participation in the social insurance programs. In addition, Hispanics who are illegal aliens have always been ineligible for most major social insurance and public assistance transfer programs and PRWORA provisions

Figure 5

Mean and ranges of per capita transfer payments, by nonmetro county types, 1996

While per capita transfer payments are highest in Black counties, considerable variation exists among counties in each minority group



Source: Calculated by ERS using data from the Bureau of Economic Analysis.

place new limitations on legal immigrants' eligibility for certain programs. However, immigrants are eligible to participate in several public programs, especially those geared toward children, such as the school lunch program and Medicaid. It is also important to keep in mind that minority counties include nonminority residents whose characteristics influence the amount of per capita transfers received by a given county.

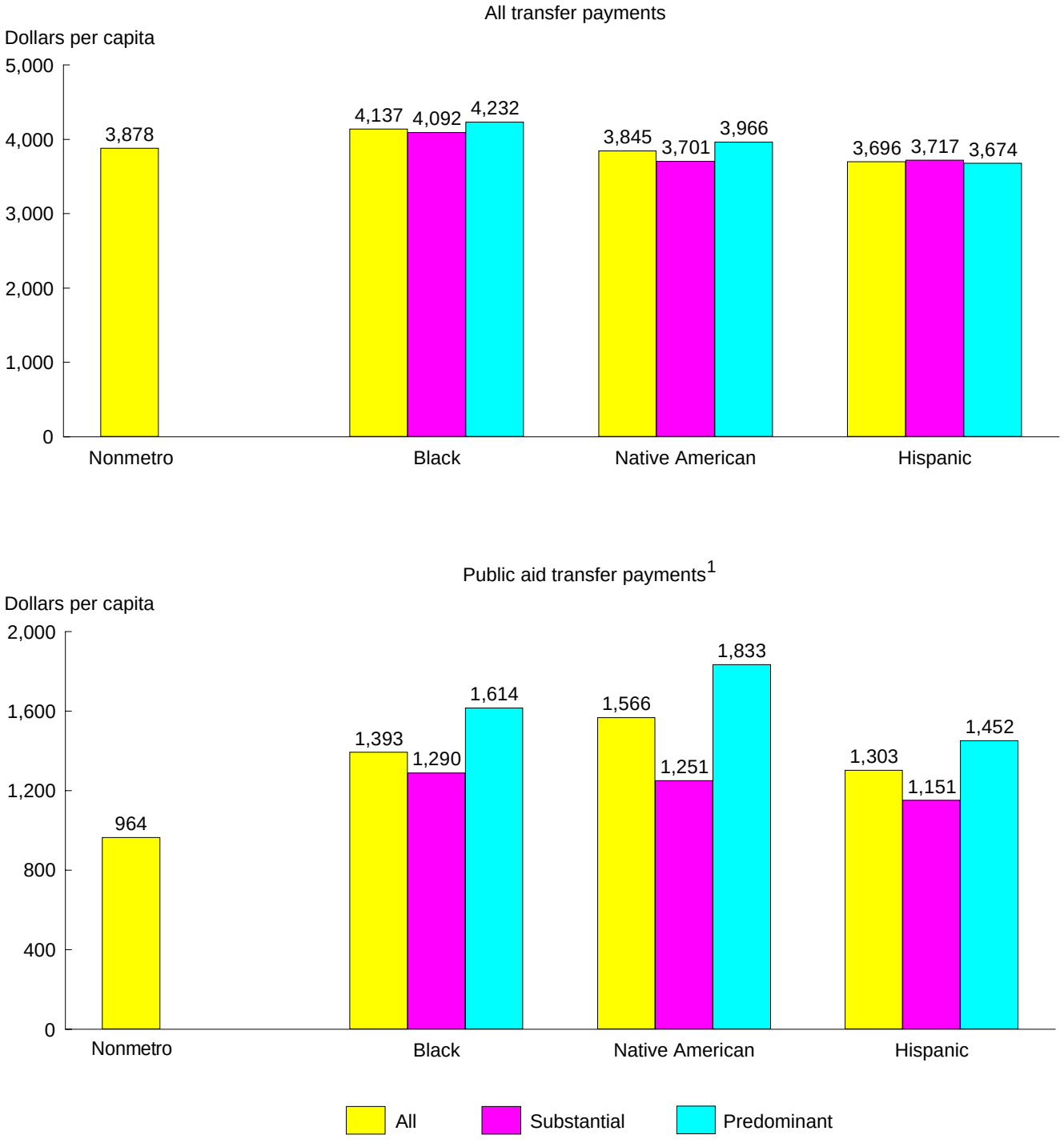
Minority Counties Rely Heavily on Public Aid Benefits

The results clearly show that all categories of minority counties relied heavily on income transfers from public assistance programs in 1996 (fig. 6). Per capita public assistance transfers in all of the minority groups were at least 20 percent higher than the nonmetro per capita payments for all of the minority groups and ranged upward to 90 percent higher in the predominant Native American counties. Per capita amounts increased as the share of minority representation reached the majority mark in all the minority categories. Furthermore, the pattern of higher per capita public assistance transfers was consistent across all public assistance programs (app. table 13). It will be interesting to observe whether or not these patterns hold true in the post-PRWORA era when newer data become available. *[Peggy J. Cook, 202-694-5419, pcook@econ.ag.gov]*

Figure 6

Nonmetro per capita transfer payments, by minority county type, 1996

Counties with high concentrations of Black population rely more heavily on transfer payments than other minority counties while all high minority counties depend heavily on public aid transfer benefits



[1]Includes income maintenance programs and Medicaid.

Source: Calculated by ERS using data from the Bureau of Economic Analysis.